

CREDIT OPINION

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North Las Vegas (City of) NV

Update to credit analysis following upgrade to A2

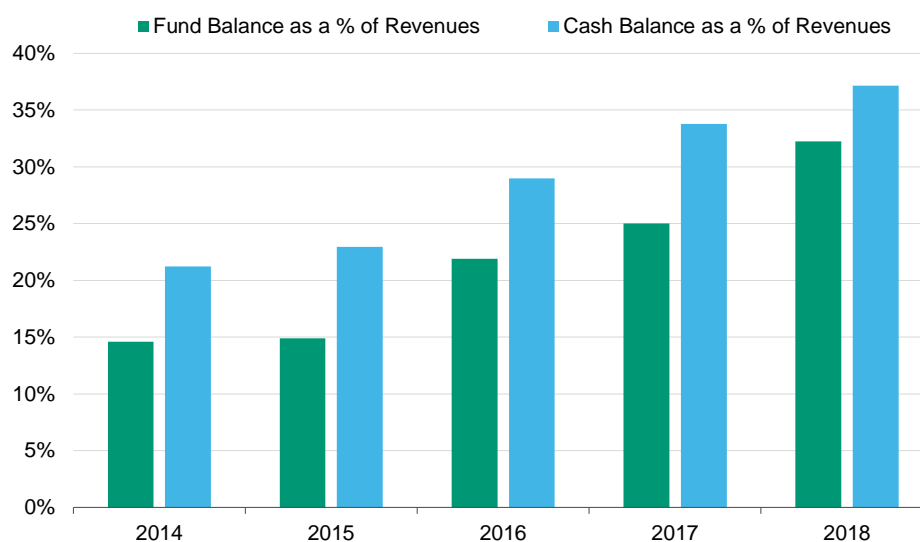
Summary

[North Las Vegas](#) (A2 stable) benefits from continued improvement in its finances driven by revenue growth from the expanding Las Vegas area economy, and the city's strong new development and growing population. At the same time, the city has limited expenditure flexibility given the service needs of its growing population and still low staff levels following deep cuts in the last recession. Also, although the city's net direct debt burden is low and its fixed costs burden is manageable, it has high net pension liabilities.

On June 19, 2019 Moody's upgraded North Las Vegas' issuer and outstanding bond ratings to A2.

Exhibit 1

Growth in reserves and liquidity since the recession due to positive economic trends and budget controls



Source: City of North Las Vegas

Credit strengths

- » Participation in the Las Vegas metro area's growing economy
- » Ample liquidity for the water and wastewater utilities that support general operations and the majority of GOLT debt service

- » Very large and growing tax base
- » Reduced dependence on utility subsidies to the general fund due to economic recovery and new development

Credit challenges

- » Modest socioeconomic measures
- » Persistent staffing pressures for providing critical services to a growing population
- » Pension contributions below the "tread water" level

Rating outlook

The outlook is stable, reflecting our expectation that the local economy and tax base will continue to show growth, and that the city's management will maintain sufficient levels of reserves and liquidity despite the need to increase service levels to meet the demands of a growing population. Debt and pension liabilities are also expected to remain manageable.

Factors that could lead to an upgrade

- » Continued structural fiscal balance with a trend of healthy reserves and liquidity
- » Material appreciation in socioeconomic measures
- » Reduced balance sheet leverage, particularly from net pension liabilities

Factors that could lead to a downgrade

- » Deterioration of the city's modest financial position
- » Substantial declines in net revenues and liquidity for the water and wastewater utilities
- » Growth in balance sheet leverage from net direct debt and net pension liabilities

Key indicators

Exhibit 2

North Las Vegas (City of) NV	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$10,005,834	\$11,890,573	\$14,212,552	\$15,865,569	\$17,025,450
Population	223,336	226,860	230,436	234,389	248,000
Full Value Per Capita	\$44,802	\$52,414	\$61,677	\$67,689	\$68,651
Median Family Income (% of US Median)	85.6%	83.6%	84.6%	83.8%	83.8%
Finances					
Operating Revenue (\$000)	\$184,075	\$198,706	\$205,816	\$216,517	\$219,941
Fund Balance (\$000)	\$26,886	\$29,603	\$45,076	\$54,136	\$70,948
Cash Balance (\$000)	\$39,094	\$45,640	\$59,678	\$73,164	\$81,719
Fund Balance as a % of Revenues	14.6%	14.9%	21.9%	25.0%	32.3%
Cash Balance as a % of Revenues	21.2%	23.0%	29.0%	33.8%	37.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$169,182	\$157,424	\$152,889	\$148,115	\$139,290
3-Year Average of Moody's ANPL (\$000)	\$715,686	\$664,116	\$640,806	\$667,415	\$661,483
Net Direct Debt / Full Value (%)	1.7%	1.3%	1.1%	0.9%	0.8%
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.7x	0.7x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	7.2%	5.6%	4.5%	4.2%	3.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.9x	3.3x	3.1x	3.1x	3.0x

Source: City of North Las Vegas

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Profile

The city is adjacent to [Las Vegas](#) (Aa2 stable) and participates in the greater metro area's economy. The city's population is sizable at over 248,000 residents, and more than doubled since 2000 amid the region's prior housing and economic boom. The city is still growing, albeit more modestly, with support from the region's economic recovery.

Detailed credit considerations

Economy and tax base: sustained recovery in Las Vegas region supports rebounding, large tax base and strong development

The Las Vegas metro economy is dependent upon gaming and tourism sectors that include the world-renowned Las Vegas Strip. Importantly, the [Las Vegas Convention & Visitors Authority](#) (Aa1 stable) remains the market leader in the US for large-scale conventions and trade shows, which supports the area's visitor counts of over 40 million annually. Some near-term volatility since late-2017 is attributable to the mass shooting on October 1, 2017 at the south end of the Las Vegas Strip as well as calendar differences, such as the number of weekend days in some months and the prior year's more favorable mix of large conventions. Historically, almost one-in-three jobs in the metro area are in leisure and hospitality sectors, leaving employment highly cyclical and subject to US and global consumer conditions. Leisure and hospitality sectors are softening this year. At the same time, the economy has benefitted in the recovery from gains in manufacturing, high-tech and healthcare sectors that provide modest diversity. Also, demand for construction is strong as commercial and infrastructure projects ramped up amid population growth and a favorable business environment.

The city's unemployment rate continues to improve and but remains slightly above state and US at 4.1% for April 2019 compared to 3.3% for the state and 3.6% for the US, though the city has a fast-growing labor force. North Las Vegas is seeing the impact of net in-migration exhibited by the greater Las Vegas area, which was the strongest in the Western region last year with support from the growing, broadening economy as well as favorable living costs. Cost of living is particularly favorable for North Las Vegas compared to neighboring cities. Median family income for the city was below average at only 84.6% of U.S. according to the 2016 American Community Survey.

The city's tax base continues to grow soundly with a full value of \$20.3 billion for fiscal 2019, reflecting 11.3% annual growth. The tax base is benefitting from the region's economic recovery as well as population growth and commercial expansion. Also, the tax base is not concentrated with the ten largest taxpayers comprising 6.5% of fiscal 2018 assessed value. Tax base valuations lag the market and reflect activity from the first half of the prior calendar year, implying the tax base will continue to grow following more recent increases in property values.

North Las Vegas benefits from extensive development that will bolster the tax base and support strong population growth. Master planned communities with housing for approximately 38,000 residents are nearing completion, and a planned development estimates 36,000 residents at build-out. On the commercial front, the Apex Industrial area has over 7,000 acres of developable land that now has operable entities, including various tech companies and utility providers. The city is currently funding water and wastewater infrastructure projects that are expected to spur commercial demand for this area. Also, the Northern Beltway Commercial Area has over 1,500 acres of developable land following road and infrastructure projects which were completed in 2018.

Financial operations and reserves: healthy finances; dependence utility transfers is declining and being used to shore up reserves

North Las Vegas improved its finances substantially after narrowing substantially in the last recession. Five consecutive operating surpluses bolstered reserves to healthy levels and operating revenues that averaged a very strong 1.06x operating expenditures for fiscal years 2014-18. Available reserves improved to a healthy 32.3% of operating funds' revenues in fiscal 2018. Available reserves are the non-restricted portions of fund balance in the city's operating funds that include its general, debt service, municipal court, parks, library, community, and various supplemental public safety funds. Of note, total reserves in operating funds were a more substantial 47% of operating revenues since some fund balances are denoted as restricted for cited purposes, but actually support operations for critical services like public safety that are based in the general fund.

Finances improved due to revenue growth that is supported by economic recovery, population growth, and new development as well as with management's focus on controlling expenditures. However, the city faces the persistent long-term challenge of growth in population and demand for services. Staffing remains at low levels following cost reductions that began amid mounting recessionary

budgetary pressures, even as service needs continued to grow. After years of building fund balances and balancing expenditures the city is committed to adding back staff to provide higher levels of service to the growing city. Given the projected increases in expenditures general fund reserves are expected to stabilize around current levels and future budgets project fund balances between 11.1% and 15.6%.

The city has limited means to increase its major operating revenue sources to support growing operating and debt service costs. Ongoing housing and commercial development is management's priority for increasing existing revenue streams to support operations. Consolidated taxes (CTax) (25.6% of fiscal 2018 operating revenues) is distributed by the state to local governments under a long-standing formula, and underlying components are predominantly cyclical sales and use taxes, but also include liquor and cigarette taxes and vehicle registration fees. Property taxes (25.6% of revenues), and the impact of any levy rate increases, are limited by the state's Abatement Act. Property taxes for existing residential properties will increase at the abatement limit of 3% while other properties will see 4.8% increases in fiscal 2020, up from 3% and 4.2% in 2018 and far exceeds limits as low as 0.2% and 2.6% under the Act's formula for all properties in fiscal years 2017 and 2018, respectively.

While the city's significant reliance on utility resources to support general operations is uncommon and indicated some level of pressure on the city's general fund, the recent reduction of the subsidies and the plan to ramp down indicates a considerable improvement in the city's general fund and points to continued financial health. City operations have been reliant on outsized transfers from the water and wastewater utilities, but the amount of these subsidies has been declining. The payment in lieu of taxes (PILT) from the utility funds to the general fund in fiscal year 2018 was only \$5.1 million or 3.7% of general fund revenues and \$7.7 million in 2019 or 5.8% of projected revenues which is down significantly from a high of \$32 million or 15% of revenues in previous years. The passage of Senate Bill 78 in the 2017 legislative session allows the city to continue operating subsidies (like PILT) from the water and wastewater utilities to the general fund as necessary, as long as management establishes a plan to reduce such transfers by at least 3.3% annually. The city's plan to reduce PILT has been approved by the state's Committee on Local Government Finance. PILT will decline over time as required by recent legislation but is not expected to pressure the general fund's performance in the city's forecasts.

Management's forecast estimates a \$4 million deficit for the general fund in fiscal 2019 then projects that the general fund will be overall stable in the 11-16% range for the foreseeable future. The use of reserves in the current year is a planned spend down on one-time expenditures from the better than expected fiscal year 2018 fund balance. PILT declined to just \$5.1 million in fiscal 2018 and \$7.7 million in fiscal 2019, but is budgeted to go back up to \$16.3 million in fiscal year 2020 and then decline by at least the mandated 3.3% annually thereafter. Reduced PILT also frees up cash flow for the utilities to fund much of the \$27 million water and wastewater infrastructure for the Apex area and \$33 million for the Northern Beltway development. The city conservatively projects property tax growth of 3.1% in the 2020 budget year though actual growth has averaged 5.6% over the last four years and consolidated tax revenues are expected to grow at 6.4% during the same period which is a reasonable assumption given recent performance. Expenditure growth includes cost of living adjustments and annual staff additions.

LIQUIDITY

Available cash in operating funds grew similarly to reserves as a result of the city's improved financial performance. Liquidity grew to a strong 37.2% of operating revenues as of fiscal 2018.

Non-restricted cash in the water and wastewater utilities remained very strong at \$131.5 million in fiscal 2018, which was equivalent to 884 days of operating expenses and improved over previous years. However, utilities' liquidity is expected to decline in the near term as the city funds infrastructure projects to spur development in its commercial zones. But, the magnitude of draws on cash are somewhat mitigated by reductions in PILT to the city's general fund, especially in fiscal 2018 and as budgeted for fiscal 2019 that total over \$21 million of savings to be redirected to capital investment. The utilities' liquidity and debt service coverage are supported by perpetual rate hikes of 3% annually for each enterprise that were previously adopted by the city council. Healthy utility operations and development are supported by more than sufficient water supply from Nevada's water allocation from the Colorado River via Lake Mead, even with the Las Vegas area's continued growth and despite the river's long-term drought.

Debt and pensions: manageable overall leverage given low debt and despite elevated pension burden

The city's net direct debt burden is a manageable 0.6% of fiscal 2020 full value or 0.6x fiscal 2018 operating funds' revenues, net of debt supported by the utilities. The majority of gross GOLT bonds financed utility projects and debt service is fully funded by the water

and wastewater enterprises. The city's current plans for additional debt are limited with the city committing to cash funding most major capital projects in the near to medium term.

DEBT STRUCTURE

GOLT bonds additionally secured by water and wastewater net revenues will reach final maturity in fiscal 2040. Net revenues grew in fiscal 2018 so total debt service coverage for these obligations improved to a stronger 4.2x. Further, net revenues in fiscal 2018 provided more than sufficient coverage of 3.2x net revenues for all utility-backed GOLT debt service plus PILT transfers to the general fund.

Legal provisions favorably require the city to deposit monthly set-asides into city-held bond funds for semiannual debt service payments, a structural strength for bondholders of double-barreled GOLT debt additionally secured by either the city's water and wastewater enterprise revenues or 15% of CTax.

DEBT-RELATED DERIVATIVES

The city does not have debt-related derivatives.

PENSIONS AND OPEB

North Las Vegas will continue to face long-term pressure from a growing net pension liability and rising contribution rates, but retirement benefits are currently manageable from a budgetary standpoint. The city's pensions are provided largely through the Nevada Public Employees' Retirement System (PERS), a cost sharing, multi-employer, and defined-benefit plan. The Moody's adjusted net pension liability (ANPL) as averaged for fiscal years 2015-17 was elevated at 3.6% of fiscal 2019 full value and 3.0x fiscal 2017 operating revenues. The city annually pays 100% of the actuarially required contribution owed to PERS, and contribution rates are set by the legislature. Employees pay half of the required contributions through wage and salary reductions. ANPL is not intended to replace the city's reported liability information but is used to enhance comparability with other rated entities. Moody's pension metrics reflect our methodology for adjusting reported pension data. The city also makes supplemental contributions to two plans administered by union groups for their members, though the city's liability is only for contributions on behalf of members that are set forth in bargaining agreements.

Pension contributions remained below the tread water level in fiscal 2018, which measures the contribution level required to prevent net pension liabilities from growing under reported actuarial assumptions. The difference between fixed costs based on tread water basis versus actual contributions was a gap equivalent to 1.9% of operating revenues. This gap is unfavorable compared to the majority of local governments nationally that nearly tread water. Still, the city's fixed costs on a tread water basis were still manageable at 15.5% of operating revenues as of fiscal 2018.

All else being equal, recent actuarial changes will increase unfunded liabilities in the plan's next valuation and pressure future contribution requirements. The largest reform was PERS recently reducing its assumed annual investment rate of return to 7.5%, which is closer to more conservative norms for many plans nationally, and down from a very aggressive 8%. PERS also made other adjustments that included lowering its inflation assumptions.

The city offers OPEB for insurance coverage to eligible retirees from various employee groups through several programs. Total contributions were modest at just over \$900,000 in fiscal 2018. The unfunded actuarial liabilities for OPEB were \$36.5 million as of fiscal 2018.

Management and governance: prudent management working to stabilize city finances at recent healthy levels

Nevada cities have an Institutional Framework score of "Aa", which is strong. The sector's major revenue sources include state-shared excise taxes distributed by a longstanding formula, and property taxes that are subject to abatement and overlapping rate limits. However, the property tax caps of up to 3% or 8%, by class, still allow for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Fixed costs are driven by debt service and pension contributions. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Strong and disciplined financial management have been key to the recent improvement of the city's credit. The city's goal is to return to its prior general fund policy level of 18% of expenditures. In the prior recession, the policy was relaxed to a narrow 8% (and then

temporarily to only 6% in the downturn). Importantly, Senate Bill 168 from the prior legislative session protects budgeted general fund balance of up to 25% of projected expenditures for municipalities (except school districts) from consideration in labor negotiations or binding arbitration, effective for new or extended collective bargaining agreements. In effect, the law favorably reduces the city's funds available in negotiations for compensation and benefits for organized labor and should limit growth in personnel costs.

Rating methodology and scorecard factors

The [US Local Government General Obligation Rating Methodology](#) includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

North Las Vegas (City of) NV		
Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$23,266,702	Aaa
Full Value Per Capita	\$95,614	Aa
Median Family Income (% of US Median)	83.8%	A
Notching Factors: ^[2]		
Economic Concentration		Down
Finances (30%)		
Fund Balance as a % of Revenues	32.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	20.6%	Aa
Cash Balance as a % of Revenues	37.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	21.7%	Aa
Notching Factors: ^[2]		
Unusually volatile revenue structure		Down
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Notching Factors: ^[2]		
Unusually Strong or Weak Budgetary Management and Planning		Down
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.6%	Aaa
Net Direct Debt / Operating Revenues (x)	0.6x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.8%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.0x	A
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets: Expected moderation of reserves going forward		Down
Scorecard-Indicated Outcome		A2
Assigned Rating		A2

[1] Economy measures are based on data from the most recent year available

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt Methodology dated December 16, 2016

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs Updated for 2019](#) publication

Source: City of North Las Vegas, US Census Bureau

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